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GENERAL ACCOUNTING OFFICE WASHINGTON DC PROCUREMENT --ETC F/6 15/5
USE OF AIR CARRIERS FOR FREIGHT SHIPMENTS. (U)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-203234

14-C-100/PLRD-81-44
The Honorable Caspar W. Weinberger
The Secretary of Defense

Dear Mr. Secretary:

Subject: Use of Air Carriers for Freight Shipments.
(PLRD-81-44)

During our review of the use of air carriers for freight shipments by the Department of Defense, we observed several matters which we believe require management attention. We bring these to your attention not only to inform you of the opportunities to improve the operations of the activities we visited, but also because our analysis of shipping records indicates that such opportunities exist at other installations.

Among other things, we found that:

- Small shipments were not being consolidated to the maximum extent possible to obtain the most favorable transportation rates.
- High-cost air transportation was being used for short distances.
- Commercial bills of lading were not being used as extensively as possible, even though they are less costly to issue and process than Government bills of lading.
- There was no effective system for monitoring carrier performance.
- The system for designating priorities was misused thereby causing excessive use of air transportation.

SCOPE

We visited 15 different Defense activities selected because of their geographical locations, size, and branch of service. These included four Naval activities in the San Diego, California, area, one in Alameda, California, and one in Norfolk, Virginia; three Defense Contract Administration Services activities and a

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contractor's plant (Rockwell International Electronic Systems) in Los Angeles, California; Norton Air Force Base, San Bernardino, California; Defense depots in Tracy, California, Mechanicsburg, Pennsylvania, and Memphis, Tennessee; and the Defense General Supply Center in Richmond, Virginia. We analyzed shipment and payment records for shipments made by these activities and paid during September through November 1979. These were the most current and complete records available at the time of our survey.

SMALL SHIPMENTS NOT CONSOLIDATED

Frequently, more than one shipment was made from the same shipper to the same consignee on the same day. For example, on July 28, 1979, seven shipments were made from the Directorate of Storage and Transportation, Defense Depot, Memphis, Tennessee, to the North Sacramento extended zone area, McClellan Air Force Base, California, with a separate bill of lading issued for each shipment. Transportation charges for the seven shipments totaled \$256.94. If one bill of lading had been issued instead of seven, the transportation charge would have been \$192. On August 6, 1979, three shipments were made from the Naval Supply Center, Norfolk, Virginia, to the Naval Ordnance Station, Louisville, Kentucky, with transportation charges totaling \$123.48. If one bill of lading had been issued, the transportation charge would have been \$50.88. On July 18, 1979, four shipments were made from the Defense Depot, Mechanicsburg, Pennsylvania, to the Naval Supply Center, San Diego, California, with transportation charges totaling \$254.04. If one bill of lading had been issued, the transportation charge would have been \$171.62.

Of 20,756 shipments we looked at during the 3-month period covered by our review, 5,754 had the potential for consolidation; that is, they were from the same point of origin to the same destination on the same day.

Issuing a separate bill of lading for each shipment when consolidation is possible is more costly for both the issuing and paying offices. In addition, lower charges are available for shipments meeting minimum weight requirements. Minimum charges for shipments below prescribed minimum weights may be avoided. For example, the Letterkenny Army Depot, Chambersburg, Pennsylvania, made two shipments on September 18, 1979. The shipments were picked up at the airport, in Washington, D.C., and delivered to Tooele Army Depot, Salt Lake City, Utah. The two shipments weighed 25 pounds and 33 pounds, respectively. The carrier assessed minimum charges of \$61.50 on each shipment. If one bill of lading had been issued, the total charge for the combined shipment would have been \$69.43.

On September 6, 1979, two shipments were made from the Defense General Supply Center, Bellbluff, Virginia, to Travis

Air Force Base, California. The two shipments weighed 2 pounds and 72 pounds, respectively. The carrier assessed a minimum charge of \$27.00 for the 2-pound shipment, but if it had been consolidated with the 72-pound shipment and one bill of lading issued, the charge for the 2 pounds would have been \$1.68.

All of the 15 activities visited stated that their policy is to consolidate shipments whenever possible. After our visits, the Naval Supply Center, San Diego, and the Defense Depot, Tracy, stated that they would look into their procedures for consolidation and would alert the issuing offices to consolidate shipments to the maximum extent possible.

The Defense depots issue the largest volume of bills of lading and have the most opportunity to consolidate. Bills of lading at these depots are machine-produced. Shipping records showed that during September through November 1979, consolidation was virtually nonexistent. We were told that the machines are now programmed to consolidate and that conditions which existed at the beginning of our survey have now been eliminated. The Defense Depot, Mechanicsburg, is conducting a test called the "Control Workload Drop." The test is designed, among other things, to consolidate shipments, thereby reducing the number of bills of lading issued and taking advantage of the lower transportation charges available for the higher weights.

HIGH-COST AIR TRANSPORTATION USED FOR SHORT DISTANCES

Our examination of shipping records for September through November 1979 showed that hundreds of shipments moved by air for short distances. The transit times experienced indicate that surface carriers could have provided equal or better service at less cost.

For example, from July 6 to August 29, 1979, six shipments consisting of printed matter and electrical equipment were made from Los Angeles to San Diego--a distance of 125 miles. Some of the shipments were as much as 4 days in transit. Surface transportation would have been much less costly.

On July 19, 1979, two shipments of batteries were made from Memphis to Little Rock, Arkansas, a distance of 138 miles, and took 5 days to deliver. By consolidating these shipments and using surface transportation, the delivery charge could have been reduced by about \$120.

On September 8, 1979, five shipments of general commodities, such as shoes, soap, automobile parts, and iron or steel articles, moved from Memphis to Tinker Air Force Base, Oklahoma, and were 4 days in transit. The Government could have saved about \$183 by consolidating these shipments and using surface transportation.

Between July 3 and July 27, 1979, four shipments were made from Bellbluff to Norfolk, on which expedited service was requested. The distance is only 90 miles, yet two of the shipments took 3 days for delivery, one took 4 days, and one took 5 days. Using surface transportation would have resulted in savings of about \$29.

Between July 23 and September 10, 1979, four shipments were made from Norfolk to Charlottesville, Virginia, a distance of 160 miles. These took 2 to 3 days for delivery. The air carriers were paid a total of \$226.58 for these shipments. If they had been shipped by motor freight the charges would have been \$93.61.

In each of the examples cited, transportation officers stated that they were following routing instructions. The required delivery dates were not met on any of the above shipments. The transportation officer at the Defense Depot, Memphis, learned of the poor service by some carriers and discontinued the use of the offending carriers.

COMMERCIAL BILLS OF LADINGS NOT
USED TO THE EXTENT POSSIBLE

On August 14, 1975, the Comptroller General, in decision B-163758, raised the monetary limitation from \$25 to \$100 on the use of commercial forms and procedures to procure transportation services and authorized the payment for such services from imprest funds. The Comptroller General noted that the "efficiencies and economies to be achieved in the use of commercial forms and procedures for these small shipments have become well established." In June 1979 the Defense Audit Service reported that, because of the large volume of lower-cost shipments and the lower cost of processing the commercial forms, considerable savings would accrue if such forms were used more extensively.

Our analysis of payment records for the 3-month period ended November 30, 1979, showed that almost 29,000 shipments under \$100 were made. Of the 15 activities we visited, 8 said their policy is to use commercial bills of lading on shipments where transportation charges do not exceed \$100, and 4 said they use computer-produced Government bills of lading and using manually-produced commercial bills of lading is not cost effective. The Naval Air Station, North Island, California, and the Naval Supply Center, San Diego, said they would check into the use of commercial bills of lading. The contractor's plant, Rockwell International, stated that its policy is to use only Government bills of lading.

We believe that the potential exists for expanded use of commercial bills of lading and that such expanded use would result in significant savings to the Government.

LACK OF AN EFFECTIVE SYSTEM FOR
MONITORING CARRIER PERFORMANCE

We found that transportation officers at the shipping points were, for the most part, unaware of poor performance by carriers. The feedback from destinations was irregular. For example, according to officials at the Naval Ocean Systems Center, San Diego, there is no regular feedback from destinations. The Defense depots use the Milstep Intransit Data card (TK4) which is supposed to be completed by the receiving activity and returned. However, only about 60 percent of the TK4s are returned. Others said that the only time they hear from the customers is when a shipment is lost or unduly delayed. None of the origin transportation officers were aware of the extent of missed required delivery dates and excessive transit times.

For example, we selected 19 shipments made from the Naval Air Station, Alameda, between June 25 and November 28, 1979. The shipments were made to various destinations by various carriers, including United, Trans World, Delta, Flying Tiger, Braniff, and American Airlines. Of the 19 shipments, 17 did not meet the desired delivery dates as indicated on the bills of lading. All transportation officers agreed that such information would be very useful.

Another practice by some carriers is to hold shipments picked up over a period of several days and then ship them all together. The transportation officer at the Defense Depot, Memphis, said that several carriers had already been suspended for poor service, which included the holding of shipments. After our visit to the Defense Depot, Mechanicsburg, the transportation officer told us that the carriers we had identified had been contacted and advised that this practice was not acceptable since it extends transit times. The carriers assured that the practice would be stopped.

QUESTIONABLE USE OF THE PRIORITY
SYSTEM FOR DESIGNATING AIR
TRANSPORTATION

The designation of air transportation is based on priorities established by the requisitioner. All activities visited, except Rockwell International, have a procedure for challenging the request for air transportation. Some challenge by using the criteria of weight alone without considering other factors, such as the nature of the commodity, the distance, or the required delivery date. Most, however, will analyze the entire shipment in an attempt to determine whether a surface carrier could provide the same service at less cost. The challenge programs are highly successful in that from 50 percent (at the Naval Ocean Systems Center) to 99 percent (at the Defense Depot, Mechanicsburg) are

downgraded to surface transportation. During September 1980, the Defense General Supply Center, Richmond, challenged 1,539 shipments of which 1,434 were downgraded for a savings of \$606,467. This indicates that requesting activities should more carefully scrutinize requests for priority air transportation.

Desired delivery dates should also be more realistic. At least two activities, the Defense General Supply Center, Richmond, and the Defense Depot, Memphis, establish delivery dates by adding 3 calendar days to the date the bill of lading is issued. This practice frequently results in delivery dates falling on Saturdays, Sundays, and holidays when receiving activities are normally closed. It also fails to consider differences in transit times and the differences in accessibility of some destinations.

CONCLUSIONS AND RECOMMENDATIONS

We believe that the underlying cause for the problems discussed in this report is the lack of full compliance with existing policies and procedures. Accordingly, we recommend that you direct the services to:

- Perform more internal audits to ensure compliance with current policies and procedures.
- Follow procedures for consolidating shipments, thereby reducing the number of bills of lading issued and obtaining the most favorable transportation rates.
- Limit the use of high-cost air transportation for shipments within a radius of 300 miles to situations where lower cost surface carriers cannot meet the required delivery dates.
- Maximize the use of commercial bills of lading and payment from imprest funds at those activities which issue bills of lading manually.
- Strengthen existing procedures for monitoring carriers' performance and provide regular feedback to origin transportation officers concerning excessive transit times and instances when required delivery dates are not met.
- Take steps to ensure that requests for high-priority air transportation are made only when surface carriers cannot meet the needs of the requisitioner.
- Establish realistic required delivery dates which accurately reflect the dates the shipments are actually needed.

AGENCY COMMENTS

On April 30, 1981, we discussed our findings and recommendations with Defense officials. They agreed that premium air transportation should not be used indiscriminately, and they cited situations and conditions that would preclude taking complete advantage of the improvements we identified. For example, Defense said that high-priority shipments generally are processed twice a day at some activities and shipments that come in after the first batch has been dispatched cannot be consolidated. Regarding the use of air transportation for short distances, Defense pointed out that such use is sometimes essential for security and where delivery must be guaranteed.

We recognize that consolidation cannot always be effected and that the use of air transportation for short distances is not always avoidable. We believe, however, that there is ample opportunity for improvement in these areas.

Concerning the greater use of commercial bills of lading, Defense said that extensive use of commercial bills complicates its oversight because Defense systems do not retain data on commercial bills. However, Defense has already asked the General Services Administration to permit the use of commercial forms on shipments where the transportation cost is \$250 or less. At present, use of such commercial bills is limited to shipments of \$100 or less. General Services' approval of Defense's request should result in a significant increase in the number of commercial bills of lading issued with resultant savings. However, close management attention will be required to take full advantage of these opportunities for savings.

In commenting on our concern about the lack of an effective system for monitoring carrier performance, Defense said that there is an existing standard system for capturing carrier performance data, but that it appeared from our report that this system is not being uniformly applied. During our review, officials interviewed at all of the sites visited said that there was no routine feedback from destination transportation officers and that they were not aware of the extent of poor performance by some carriers.

Regarding our finding concerning the misuse of the priority system, Defense said that the system serves two purposes. First, by assigning a higher priority, a requisitioner lays claim to existing assets. Second, the priority also serves to denote "air eligibility." Defense recognizes the problems associated with the dual purpose of the customer-assigned priority and is staffing two different proposals that would either require the customer to designate a priority for transportation or indicate a required delivery date in addition to the supply priority.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. Also, we would appreciate receiving your comments on the issues discussed in this report and being kept informed of corrective actions taken.

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations and on Armed Services, and to the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,

Donald J. Horan

Donald J. Horan
Director

